ONCF Green Bond – Impact Story

Since 2009, the Kingdom of Morocco has embarked on an ambitious energy transition aimed at increasing renewable energy capacity, enhancing energy efficiency, and promoting regional integration. This strategic initiative seeks to mitigate Morocco's vulnerability to climate change, particularly impacting rural communities heavily reliant on the land for their livelihoods. With strong political support, ambitious public policies, technical capabilities, and favorable climatic conditions, Morocco is on track to achieve its ambitious goal of generating 52 percent of its energy from renewable sources by 2030.

Aligned with Morocco's commitment to sustainability and its New Development Model, the Office National des Chemins de Fer (ONCF), Morocco's national railway office, has taken pioneering steps towards greening its operations. Notably, ONCF initiated the construction of Africa's first high-speed rail line powered entirely by wind energy. Covering a network of 2,295 kilometers, this endeavor has led to a 12% reduction in greenhouse gas emissions from 2023, equivalent to avoiding 121,000 tonnes of CO2 annually or planting four million trees. Trains emit only 0.47% of Morocco's total emissions and 2.6% of the transportation sector's emissions, highlighting their role in minimizing the country's carbon footprint.

In 2022, ONCF capitalized on its commitment to sustainability by issuing a groundbreaking Green Bond. This issuance, valued at 1 billion Moroccan dirhams (approximately US$100 million), was aimed at refinancing a loan secured in July 2017 for the construction of the high-speed line between Kenitra and Tangier in northern Morocco. The Green Bond adheres to the Green Bond Principles (June 2021) developed by the International Capital Markets Association (ICMA) and Morocco's Guide on Green, Social, and Sustainability Bonds (June 2018).

The high-speed line project is a pivotal component of ONCF's master plan to connect Tangier to Marrakech by 2030, facilitating faster intercity travel for passengers while significantly reducing CO2 emissions and freeing rail lines for freight. Travel time between Tangier and Kenitra has been slashed from 2 hours and 25 minutes to 50 minutes, with an estimated reduction of over 2.5 million tons of CO2 equivalent emissions over a 30-year period. The line, inaugurated on November 15, 2018, underscores ONCF's commitment to sustainable mobility and infrastructure development.

Moreover, ONCF's commitment to sustainability equally reflected on its energy consumption model. As a matter of fact, ONCF took considerable steps in greening its railway operations and positioning green electricity in the center of its energy mix: wind energy is currently powering 100% of ONCF HSL trains and furthermore, 90% of its overall electric trains.

The issuance of the Green Bond represents ONCF's strategic move to diversify its financing sources and align its debt maturity with the lifecycle of its infrastructure assets. It marks the first green bond in Morocco's infrastructure sector and the sustainable mobility sector in Africa, drawing subscriptions from national investors such as CDG Capital and international investors such as the European Bank for Reconstruction and Development (EBRD).

"*We are committed to green transportation, and we are very proud to have had a green bond issued. It links our financial strategy and our core value…Moreover, the infrastructure sector is very cash consuming industry. We want to ensure that the financial stability of our plans. The Green Bond was an opportunity to set the link between our core values and capital markets*."

Hicham Machmoumi, Head of Development and Financing, ONCF

CDG Capital, a Green Climate Fund direct access entity in Morocco, has supported ONCF's green bond initiative by integrating sustainable projects into its diverse portfolio across various sectors. FSD Africa played a crucial role in facilitating this process, providing technical assistance to enhance CDG Capital's green financing capabilities and supporting green bond labeling.

"*We are trying to raise awareness among our partners to integrate sustainable project in their investments so they can access green finance but there was a lack of knowledge about green financing and green labelling. … There is no incentive to do green finance. It's more the market context or risk profile of the issuer. Now the issuer is more aware of the need to issue more Green Bonds*."
Saad Lamzabi, Corporate Finance Director, CDG Capital

EBRD's involvement in ONCF's Green Bond issuance is aligned with its Green Economy Transition (GET) objectives and the Paris Agreement. The EBRD was the only international investor in the bond, reflecting its strategy to expand investments in the region and support capital markets development. Since its creation, EBRD has invested over €200 billion in more than 7,152 projects and is committed to ensuring that at least 50% of its annual business is invested in green projects from 2025.

"*ONCF is probably one of the best railway companies in Africa…When they indicated they wanted to consider Green Bonds, we knew they were already green focused and we helped them issue a local currency bond… The financial conditions in the market were just right. We continue to encourage other clients to think differently about how they can diversify their funding sources and embrace these new mechanisms. More education is needed as this is very new*."
Sue Barrett, Director, Sustainable Infrastructure, EBRD The collaboration among ONCF, CDG Capital, EBRD, and FSD Africa demonstrates a concerted effort to develop Morocco's green finance market and enhance local capital market dynamics. While Morocco's green bond market is still nascent, such initiatives play a crucial role in building knowledge and capacity within companies, promoting third-party certifications, and advancing green bond issuances through FSD Africa's facilitation.

Morocco's energy transition efforts and ONCF's green bond issuance exemplify strategic initiatives driving sustainable development and resilience to climate change. These endeavors not only bolster Morocco's position as a leader in renewable energy adoption and sustainable infrastructure development but also pave the way for future collaborations and investments in green finance across Africa.

Impact of the High Speed Line in numbers:

- 120 000 CO2 avoided each year, equivalent of 4 million trees, as a result of the transition to green energy: on the HSL activity as well as an significant part of the conventional line operations.
- 5000 jobs and created 1500 direct jobs with contractors.
- 90% of civil engineer work carried by local companies.
- Knowledge transfer to local companies and ONCF.
- Number of people with improved access to transportation services increased from 3 million in 2019 to 5 million in 2022.
- Connecting major economic hubs: Kenitra to Tangier in 50 minutes .
- Different social categories use the HSL.
- The HSL allowed to free up freight rails leading to more freight traffic between Kenitra and Tangier and more economic growth.

Lessons learned:

- Green finance in general is an accessible and great opportunity to raise money.
- Building capacity around communication and promotion of the company values is essential.
- Advertising and making monitoring data public attracts more investors and demonstrate our alignment with sustainability goals.
- Companies can contribute to the development of green finance markets in Morocco.
- Local currency investments are viable.